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Although agricultural employment in rural areas is high, manufacturing employment for both the rural-farm and the rural-nonfarm population is also high. Much nonagricultural employment in rural areas is in low labor productivity industries. There is much underemployment. Policies designed to correct underemployment emphasize the population factor particularly and outmigration. Increasing capital investment for industry located in rural and small-town areas represents an alternative policy. The latter alternative involves movement of capital.

Capital availability in rural areas is unfavorable according to such measures as volume of commercial bank deposits per capita, the proportion of current public expenditures financed through funding operations, and the availability of the resources of other financial sources. New capital expenditures in manufacturing proceed more slowly in the more rural counties. The urban location of nonagricultural wealth exaggerates the adverse capital availability. The geographical availability of inherited wealth is also adversely situated. If unchanged, these imperfections in the capital market will serve to perpetuate the economic disadvantages confronting rural communities. A number of Federal programs provide means whereby persons in rural areas can improve local economic situations.

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ECONOMIC BASES AND POTENTIALS OF RURAL COMMUNITIES

by

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United States Department of Agriculture

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ECONOMIC BASES AND POTENTIALS OF RURAL COMMUNITIES

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ECONOMIC BASES AND POTENTIALS OF RURAL COMMUNITIES

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ABSTRACT

Although the concept of rurality is used more frequently in areas outside of economics, there is considerable economic information for the rural sector. Such information is most accurate for the agricultural portion of the rural sector. However, we can use analytical techniques to describe other rural industries, manufacturing, for example. For economic purposes it is frequently better to regard rurality as a continuum rather than a dichotomy-- a procedure which is followed in this work.

There has been a steady reduction in the relative importance of agricultural employment. At the present time, only two of the 48 contiguous states have more than one-fourth of total employment in agriculture. According to almost every objective measure of income and well being, rural areas are disadvantaged, and this disadvantage is most acute in the most rural areas. Economic difficulties contribute to outmigration and population losses in rural areas and are reflected in higher per capita costs for local governmental expenditures. Outmigration also has reduced the proportion of the rural population in the productive ages and has increased the proportion in the dependent age classifications. Moreover, opportunities for female labor force participation and for full-year employment are also reduced. Rural workers often travel considerable distances to find employment opportunities--more so than in true of urban workers. Lower levels of education among rural persons also hinder economic well-being in rural areas.

Although agricultural employment in rural areas is high, manufacturing employment for both the rural farm and the rural nonfarm population also is considerable. Unfortunately, much nonagricultural employment in rural areas is in low labor productivity industries. Furthermore, there is a large amount of underemployment in rural areas. Policies designed to correct underemployment may emphasize the population factor--particularly outmigration. Increasing capital investment for industry located in rural and small-town areas represents an alternative policy. The latter alternative involves movement of capital.

Capital availability in rural areas is adverse in almost every measure available, including the volume of commercial bank deposits per capita, the proportion of current public expenditures financed through funding operations, and the availability of the resources of other financial sources, such as life insurance reserves and management investment company assets. This adverse capital influence has persisted for more than 50 years, and is important even when population and income densities are taken into account. Furthermore, more recent data available show that new capital expenditures in manufacturing proceed more slowly in the more rural counties. Even when put on a per employee

basis, new capital expenditures in manufacturing in rural areas are only one-fourth of those found in areas of medium sized cities. Transfer payments, too, exhibit an adverse relationship.

The adverse location (meaning urban) of nonagricultural wealth further exaggerates the adverse capital availability engendered by the location of capital assets in the hands of financial intermediaries. Even though nonagricultural wealth is adversely located, the ownership of such wealth is even more adversely situated. Furthermore, the geographical availability of inherited wealth, so useful for risk capital opportunities, is also adversely situated. If unchanged, these imperfections in the capital market will serve to perpetuate the economic disadvantages now confronting rural communities.

A number of Federal programs provide means whereby persons in rural areas can imporve local economic situations. Solutions will require fortitude to overcome frustration and sentiment.

ECONOMIC BASES AND POTENTIALS OF RURAL COMMUNITIES

by

Frank T. Bachmura and John H. Southern

RURALITY AS AN ECONOMIC CONCEPT

In earlier usage, rurality essentially denoted a sociological rather than an economic approach. More and more, however, the total economies and resources of rural areas and people are coming to the attention of economists. This newer focus emphasizes that the agricultural component of the rural economy is, despite its great importance, only a part of an even more important economic sector -- the rural sector. Attempts to analyze the economic bases of rural areas quickly reveals the limitations of current economic information, both for today as well as for yesterday. For example, economists frequently use an industry classification. Thus, while we do have good information about the agriculture industry and the agricultural sector, we do not have detailed information about the rest of the rural economy. For example, we can find information more readily about all manufacturing than about rural or urban manufacturing.

Moreover, residence areas and location of work or economic activities are not identical for many persons. Many persons living on what are officially defined as farms work in nonagricultural industry. On the other hand, some persons living in rural nonfarm areas are engaged in the agricultural industry. This latter group includes farm laborers, whether migrant or not, and some subsistence farmers whose land holdings and income are too small to permit them to be officially defined as farmers.

Another limitation in studying the economics of rural communities stems from the definition of rurality used by the United States Census Bureau: places having 2,500 or more persons are defined as urban, and with only the exception of certain urban fringe areas, the rural population comprises the remainder of the total population. Also, differences between rural and urban areas are becoming less distinct. Certainly, the day of the isolated, self-sufficient rural community is going the way of homespun clothes and the horse-drawn plow. Moreover, from the practical point of view of economic analysis, it is useful to include communities well in excess of 2,500 persons for the study of rural-urban economic relationships. The criterion of rurality is arbitrary and dichotomous, whereas rural-urban relationships are best viewed as sets of continua.

HISTORICAL ANALYSIS OF THE USE ROLE

Economists have long observed that a nation's dependence upon agriculture declines as its income rises and as its economic activities grow in volume and diversity. Economists usually describe it in terms of a reduced proportion of the labor force engaged in agriculture. Reduction in the proportion of the labor force engaged in agriculture must be distinguished from an absolute growth in the agricultural labor force. Table 1 shows the historical

Table 1. Census year in which agricultural employment fell below 25 percent of total, by states

(Figures in parentheses are percentages of employment in agriculture, forestry, and fisheries as of 1960)

Date	Geographic Region			
	Northeastern States	Southern States	North Central States	Western States
1870 or earlier-	Conn. (1.8) Mass. (1.3) N. J. (1.5) R. I. (1.3)			
1880 ----------	N. Y. (1.5)			Colo. (7.8)
1890 ----------	Pa. (2.7)			Nev. (4.6)
1900 ----------	Md. (3.5) N. H. (3.1)			
1910 ----------	Maine (6.2)		Ill. (4.4) Ohio (3.7)	Ariz. (8.1) Cal. (4.6) Wash. (6.6)
1920 ----------	Del. (5.2)	W. Va. (4.4)	Mich. (3.4)	Ore. (7.9)
1930 ----------		Fla. (6.8)	Ind. (6.5)	Utah (6.0)
1940 ----------	Vt. (11.9)	Va. (7.8)	Mo. (9.5)	
1950 ----------		Ala. (9.8) Ga. (9.2) Ky. (14.2) La. (7.8) N. C. (13.0) Okla. (9.4) Tenn. (10.9) Tex. (8.8)	Kans. (13.3) Minn. (14.5) Wis. (11.5)	Mont. (17.7) N. M. (7.3) Wyo. (13.6)
1960 ----------		Ark. (17.7) Miss. (21.4) S. C. (11.9)	Iowa (20.7) Nebr. (21.2)	Idaho (19.0)
Future ---------			N. D. (32.8) S. D. (30.6)	

Sources: Simon Kuznets and Dorothy Swaine Thomas, Population Redistribution and Economic Growth, 1870-1950, (Philadelphia: The American Philosophical Society, 1957), Vol. I, Table L-4 and U. S. Census of Population, 1960, Table 133.

trends in the relative size of the agricultural labor force among the states. Both sexes are included in the 1960 proportions. The agricultural labor force is now declining in absolute terms as well as relative terms in all states and for the Nation as a whole. These changes are large. The latest Census 3/ reports 4,256,000 persons employed in agriculture, 38.4 percent less than the 6,909,000 persons reported in 1950. The 1950-1960 reduction is more than twice the 1940-50 rate of 18.2 percent. In the 20 years since 1940 agricultural employment has been cut in half. Illustrative of the increasing interdependency of our economy is the fact that almost one-half million (493,000) persons employed in agriculture live in urban, not rural, areas.

The decline in the agricultural labor force has important implications for rural youth. For many of them economic opportunities in agriculture are limited. Rural youth more and more must look to nonagricultural activities to find job opportunities commensurate with their abilities and with those currently available for urban youth. The basic economic question is whether these opportunities can be provided for rural youth in or near the rural areas in which they now live or whether these opportunities must be developed in an urban setting, often many hundreds of miles removed.

Economically speaking, these two possibilities reflect two markets for productive services. A policy decision which seeks to increase the volume of nonagricultural economic activities in rural areas must look largely to the capital market. This is the market for investment funds, for credits, and the other services of financial intermediaries as well as the market for productive material assets. The alternative policy which would seek to provide jobs for rural youth in urban settings must largely emphasize the labor market; that is, the market for the economic services of people including place, hours, and conditions of work, including wage rates. Broadly conceived the labor market also considers capital investments in people for education and training which largely serve to structure labor markets by degree of skill.

THE ADVERSE POSITION OF RURAL AREAS

About 30 percent of the United States population is in rural areas. This rural population is disadvantaged in numerous ways; level of income most clearly shows its economic disadvantages. The 1959 annual median income of urban families was $6,166 compared with $4,750 for rural nonfarm families and $3,228 for rural farm families. Income differences of this magnitude cannot be explained in terms of the value of home products. More explicit information based on a ten percent sample of counties appears in Table 2. There can be no doubt that incomes to rural people, especially to farm people, are disproportionately low. This means that an important segment of the United States population is well behind in receiving the fruits of our national economic development. They have, in many cases, not had the full opportunities others have enjoyed in making a maximum contribution to the productive output of our economy. Indeed, in many ways, rural people have to share a disproportionate burden of the costs and expenses, whether they be monetary or intangible.

Table 3 illustrates some of the reasons why the cost of economic progress falls so heavily upon rural people in the first place. The more rural a county is, the more likely it is to have lost population during the past decade.

Table 2. Averages of county median income by size of major community, 1959.

Size of major community	Family median income			Rural and urban families with incomes of $3,000 or less
	Rural and urban	Rural	Rural farm	
	Dollars	Dollars	Dollars	Percent
0 - 2,499	3,445	3,456	3,004	44.9
2,500 - 4,999	3,698	3,392	3,109	40.8
5,000 - 9,999	4,230	3,766	3,207	34.9
10,000 - 24,999	4,500	4,079	3,495	30.1
25,000 - 50,000	5,288	4,883	4,272	22.1

Source: U. S. Census of Population: 1960. Tables 7, 36, 91, and 93.

Table 3. County rates of population change, 1950-60, and average local government expenditure, 1957, by size of major community, by counties

Size of major community	Population change, 1950-60	Local governmental expenditure	
		Aggregate	Per capita
	Percent	1,000 Dollars	Dollars
0-2,499	-7.6	995	142
2,500 - 4,999	-5.6	1,949	135
5,000 - 9,999	2.4	3,292	127
10,000 - 24,999	15.6	5,411	129
25,000 - 50,000	23.9	10,662	129

Source: U. S. Census of Population: 1960. Tables 6 and 7.

U. S. Bureau of the Census, County and City Data Book, 1962, Table 2, Item 80.

The completely rural counties lost almost eight percent of their population during the past decade. This loss represents a decline in population equivalent to the natural population increase over the decade plus almost eight percent of the population residing in the counties in 1950. In all, almost one-half of all U. S. counties lost population over the decade. Population losses mean that the fixed cost of government and social services have to be divided over a smaller and shrinking base. Per capita local government costs are higher in the rural counties. Such expenditures are 10 percent higher in the rural counties than in those with a larger urban center. These costs are not confined to public units, a similar cost is borne by many private concerns as well.

Moreover, as counties become more rural, there is a tendency for the dependency ratio to increase. This dependency ratio can be described as the ratio of persons under 18 and over 65 relative to the population in the productive ages from 18 to 64 (Table 4). Particularly burdensome in rural areas is the incidence of childhood dependency, which is a direct outgrowth of high fertility ratios. Rural areas never fully regain investments made on either a private or a public basis in their youth, since large proportions leave for urban centers. As shown in Table 4, the proportion of the population in productive ages increases as areas become more urban, whereas an opposite tendency occurs for persons in retirement ages. A similar measure of dependency burden is the nonworker ratio presented in Table 5. The nonworker ratio is fully 20 percent higher for the rural counties than for the nonmetropolitan urban counties.

Table 4. County age distribution and dependency ratio by size of major community

Size of major community	Population			Ratio of those over 65 and under 18 to those 18 - 64
	Under 18	18 - 64	65 and over	
	Percent	Percent	Percent	
0-2,499	38.7	50.1	11.3	.998
2,500 - 4,999	37.1	50.5	12.4	.980
5,000 - 9,999	37.2	51.9	11.0	.909
10,000 - 24,999	36.6	52.7	10.7	.897
25,000 - 50,000	36.7	54.3	9.0	.841

Source: U. S. Census of Population: 1960. Tables 7 and 13.

In addition, rural women have less opportunity for gainful employment than do urban women. Table also shows that almost 27 percent of the females in the most rural counties were in the labor force as compared with almost 33 percent for counties with cities having between 25,000 to 50,000 persons. Moreover, the proportion of workers who work a full year is also lower in rural counties.

Table 5. County labor force characteristics by size of major community, 1959

Size of major community	Nonworker ratio	Females in labor force	Workers working 50-52 weeks	Workers working outside county
		Percent	Percent	Percent
0 - 2,499	2.00	26.6	51.6	13.2
2,500 - 4,999	1.88	27.8	53.5	12.1
5,000 - 9,999	1.77	31.0	52.9	11.7
10,000 - 24,999	1.75	31.9	51.2	11.8
25,000 - 50,000	1.60	32.9	57.2	8.8

Source: U. S. Census of Population: 1960. Tables 7 and 36.

These factors contribute to the lower earning opportunities for rural communities and dim their outlook for providing future opportunities for rural youth. In addition, the worker in a rural county is more likely to work outside that county than is true in more urban counties. Although this may in part reflect residential preference rather than lack of local opportunity, the lower income position of rural counties suggests that most persons work outside the county because local opportunities are not available.

If a rural youth, or an adult for that matter, seeks to improve his personal economic position through outmigration, he confronts many institutional impediments, both public and private. In general, a rural migrant usually is a residual claimant for urban employment. To illustrate, most large employers in an industrial community utilize a seniority system for hiring and firing, sometimes enforced by a collective bargaining, sometimes not. If persons are laid off at the time a migrant applies for a job, he must wait until the roster of laid off persons is exhausted before his application will be considered. However, it is unusual for a rural person to know exactly when the seniority lists have been exhausted and when more hiring is to take place. This means that a considerable portion of new job openings will be first claimed by persons who are already on the scene -- for example, relatives and friends of persons employed in the general area. Generally, only the harder to fill positions and the least attractive ones will be open for the rural migrant. Sometimes, too, jobs are rationed on the basis of formal school completion. To the extent this occurs, many rural migrants are further disadvantaged, especially when labor demand slackens, because of their low educational attainment.

Thus, many rural youth are disadvantaged economically, whether they stay where they are or whether they move to a more distant community. In either case, the economically disadvantaged underwrite an important portion of economic progress. They must either finance their movements to a distant center, and thereby help the labor market function more adequately, or, if they stay, they must bear a larger and larger share of operating their community activities in their own local area. Perhaps the highest cost of all is borne by

those youth who leave rural areas, only to find no available jobs in the new community. The plight of such people has been amply described in Social Dynamite. 1/

THE POPULATION FACTOR -- EDUCATION

Rural individuals by and large receive less formal education than do urban persons. In 1960 the median years of education for persons 25 years of age or older was 9.2 for those living in completely rural counties in contrast to 10.6 for those living in counties with urban centers having between 25,000 to 50,000 persons. Moreover, there continues to be a considerable number of functionally illiterate in the rural population. Formally, functional illiteracy is defined by having less than five years of education. In practice, it means persons cannot follow written instructions.

Economic evidence overwhelmingly justifies investments in education. Returns to educational investments are so large that such an investment, even in a person of 60, is economically sound. 2/ This being so, the economic justification of such an investment in a youth is multiplied many, many times. Even if the formal measures of school attendance and attainments were the same for rural as for urban people, there still would be a considerable disparity because of differences in the scope and quality of rural versus urban educational systems. Other papers treat education in detail and still others consider the relationship of various Federal educational and training programs to rural needs. We wish to comment only on the feature of the Manpower Development and Training Act provides training eligibility for persons in farm families netting less than $1,200 cash income annually. Figure 1 (p. 7a) gives an idea of the national distribution of rural persons of working age, both farm and nonfarm, meeting the $1,200 criterion. 3/ 4/

THE POPULATION FACTOR -- INDUSTRIAL STRUCTURE

Rural communities continue to have a close connection with agriculture, but large and increasing numbers of rural persons are employed outside of agriculture. Only 60 percent of employed persons in the farm population are engaged in agriculture; the biggest industry classification other than agriculture is manufacturing. Only about eight percent of the rural nonfarm population is employed in agriculture, and about 28 percent are engaged in manufacturing. Almost equal proportions (28 percent) of the rural nonfarm and urban labor force are engaged in manufacturing.

Despite the fact of considerable nonagricultural employment among rural people, there continues to be at least two unfortunate corollaries to rural area employment. One is that most nonagricultural employment opportunities available in rural areas pay less than those available in urban areas; the other is that underemployment is far greater than that recognized by national and state statistical series. Department of Agriculture economists have estimated that the volume of rural farm male underemployment 5/ in the United States exceeds one million man equivalents of unemployment.

THE POPULATION FACTOR -- ECONOMIC ANALYSIS

Certain institutional arrangements limit employment alternatives. These include minimum wage laws, industry-wide collective bargaining, and similar practices which affect the downward flexibility of wages and the volume of employment. We have argued that rural persons frequently come into the non-agricultural labor force as residual claimants. Moreover, the real incomes of rural persons are considerably below those in urban communities. Essentially this means that there are many rural people who, if there were free entry to many occupations, might offer their services for lower than prevailing wages. This is a classic example of the downward inflexibility of wage rates, which economists have emphasized as being contributory to unemployment.

Economic theory in the past generation has emphasized that appropriate monetary, tax, and expenditure policies can generate additional employment, despite the downward inflexibility of wage rates. But some evidence now suggests that it is possible to raise wages over a broad spectrum more rapidly than it is possible to expand effective demand through monetary, taxation, and expenditure policies of the government.6/ This tendency is especially important to the rural person, because if wage rates are once set too high in terms of effective demand, then there are strong institutional barriers to their downward flexibility. It may be difficult to reduce them sufficiently rapidly to generate a volume of employment which will be large enough to provide adequate employment for low income rural workers.

Because most persons believe that basic institutions regarding minimum wages, industry-wide collective bargaining, and general management practice cannot be changed, they frequently recommend attention be given to capital policies instead. One of these policies can be regarded as the investment in education. Investments in education are at least as productive as investments in tangible capital and represent an outstanding way in which labor in rural areas can improve its employability, both for short- and long-term prospects.

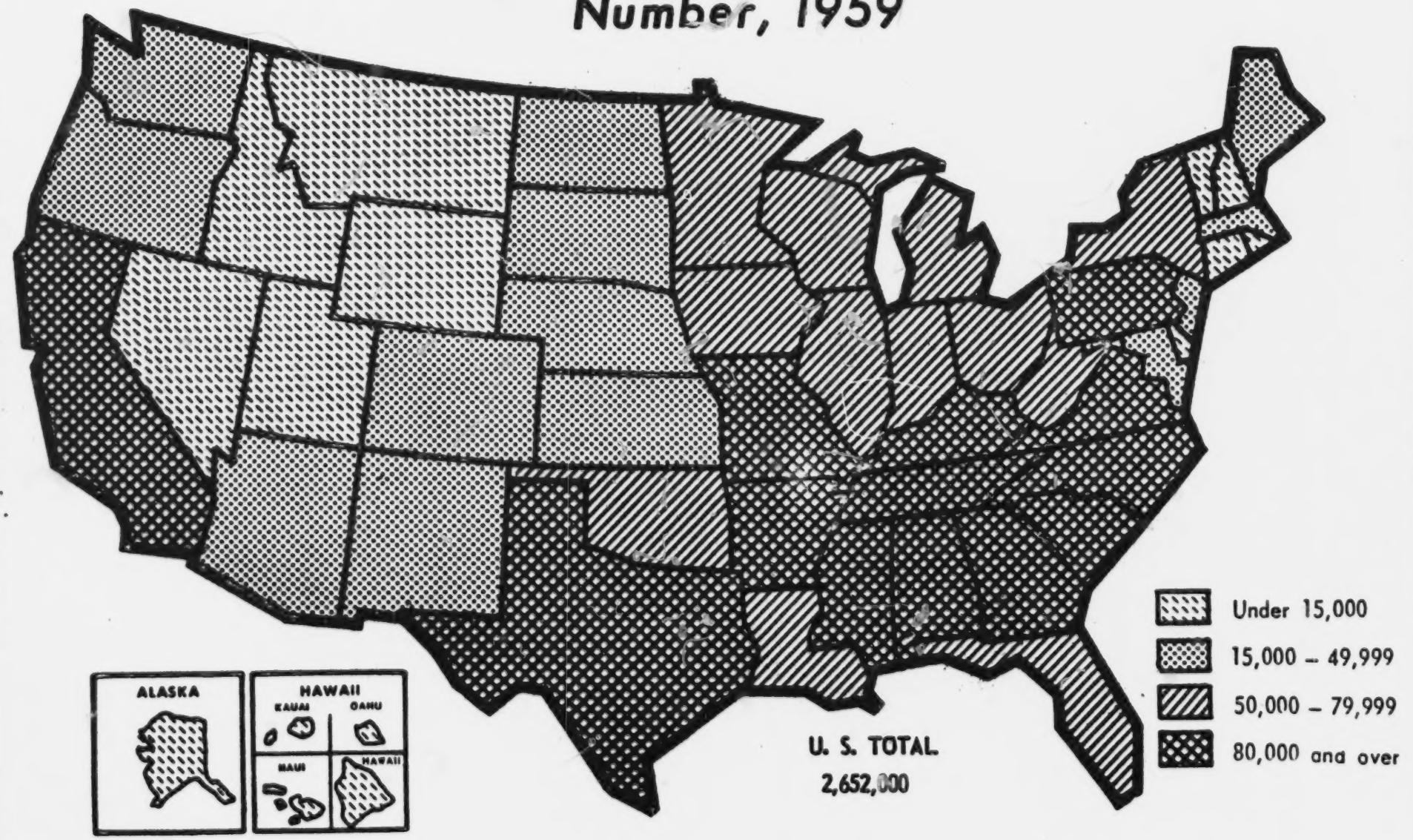
CAPITAL FACTOR CONSIDERATIONS

Although more rural people are engaged in manufacturing than in agriculture, it is difficult, if not impossible, to estimate the amount of manufacturing capital invested in rural areas. Most such analyses are not made on the basis of residential or population strata, but are made on the basis of industrial sectors, as agriculture, manufacturing, and so on. Only in agriculture do we have meaningful estimates of the capital investment which can be safely attributed to the rural sector.

National investment in agriculture has been reported regularly by the Department of Agriculture in its Balance Sheet of Agriculture. 7/ As of January 1, 1963, $217 billion was invested in American agriculture. All but 14 percent of this represented the equity of proprietors, their total liabilities amounting to $30 billion. This relationship of liabilities to assets upholds the idea that capital stringencies in agriculture have become less and less important over the years. This achievement results from both public and private programs designed to provide adequate capital to farmers,

RURAL WORK FORCE WITH NET ANNUAL INCOME UNDER $1,200

Number, 1959



SOURCE. U. S. CENSUS OF POPULATION.

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but the same claim cannot be made for nonagricultural investments in rural areas. One item in the Balance Sheet of Agriculture deserves special attention, namely, farmer household holdings of $4.8 billion worth of United States Savings Bonds. The implication of this asset holding is examined later in terms of the availability of the services of financial intermediaries in rural areas.

The most recent information regarding national assets was developed by Kuznets for the year 1949. 8/ In that year, the National Bureau of Economic Research estimated total U. S. assets to be $2,016 billion. In the same year, the Balance Sheet of Agriculture showed that agricultural assets amounted to $134 billion, leaving $1,882 billion as nonagricultural assets. This figure cannot be divided precisely between the rural and urban sectors, but the bulk of it is in the urban sector.

For example, Table 6 shows that per capita bank deposits increase directly with the size of the largest place in counties, at least up to counties having a city under 25,000 population. Lower per capita bank deposits represent a disadvantage for rural communities. In addition, the absolute amount of bank deposits in rural counties is much reduced relative to the volume available elsewhere. Because many commercial uses for bank credit are directly related to the volume of deposits, reduced capital availability becomes a further handicap to the nonagricultural development in rural communities. Although commerical bank credit is not the sole source of capital in smaller communities, and although it generally is available only for short-term capital investments, it constitutes an important index of capital availability.

Table 6. County capital availability by size of major community, 1959

Size of major community	Commerical bank deposits		Local government debt, 1958		Local government expenditure to local government debt, 1958
	Aggregate	Per capita	Aggre gate	Per capita	
	Thous. Dollars	Dollars	Thous. Dollars	Dollars	Ratio
0 - 2,499 ---------	5,264	739	712	95	.67
2,500 - 4,999 -----	11,210	783	1,454	109	1.34
5,000 - 9,999 -----	19,128	787	3,309	131	1.00
10,000 - 24,999 ---	35,587	836	6,466	149	.84
25,000 - 50,000 ---	75,606	553	12,413	157	.86

Source: U. S. Census of Population: 1960. Table 6 and 7.

U. S. Bureau of the Census, County and City Data Book, 1962, table 2, items 73, 80, and 82.

In similar vein, longer term capital accruing to public sources also is more restricted in rural communities. On a per capita basis, local government expenditures in rural counties are higher than in the more urban counties, within the range studied (table 3). However, per capita public debt in rural counties amounted to $95 as against $157 for communities with 25,000 to 50,000 population. The aggregate amount of public debt increases even more rapidly than does per capita debt (table 6). These observations suggest two things. One is that for the nonmetropolitan counties considered, the per capita government expenditure burden is quite high, particularly when compared with the percentage of the population of working age. In the most rural communities local governmental expenses per family would be even higher than indicated. Moreover, many demographers expect that populations in many rural areas will continue to decline, probably more rapidly than the level of local governmental expenditure. Secondly, the low public debt outstanding in these areas suggests that a much larger proportion of public expenditure is handled on a current, rather than a funded basis. Even when backed by the taxing power of individual communities, rural areas have significant problems with respect to capital formation.

To test this assumption, we computed correlates by geographic regions and states for relationships between rurality and certain indices of availability of capital. On a state basis, almost all types of financial intermediaries had less capital available in the more rural states (table 7). Moreover, this was also true when bank deposits were converted to a per capita basis. Little change occurred in this relationship over a 50-year period.

Moreover, despite the great service the Small Business Administration has rendered in rural areas, the aggregate volume of its loans since the inception of the program relates inversely to rural population. The SBA's direct loans during the latest fiscal year show a more advantageous relation for rural and small town areas of about $0.75 per capita as compared with $0.30 per capita in the 25,000 to 50,000 category. Participation loans were even more important ($5.46 vs. $1.46 per capita). 9/

It is in this context that the $4.3 billion invested by farmers in United States Savings Bonds 10/ may reflect the outflow of badly needed capital to areas of larger population density and greater existing capital availability. There is increasing evidence to suggest that there is a net outflow of funds from rural areas rather than otherwise. The role of financial intermediaries are important in the formation of capital which, inturn, is basic to expansion of economic opportunities. The implications for employment of rural youth are obvious.

All too often, rural communities interested in local industrialization think exclusively in terms of the reinvested earnings of major corporations. Although this is a source of capital which should not be overlooked, the fact remains that only a small portion of total capital expenditures in manufacturing industries is made in rural counties. Thus, for the sample of rural counties (table 8), new capital expenditures in 1958 amounted to $111,000 at a time when $8,211 million were expended in a smaller number of counties with population centers between 25,000 and 50,000 persons. On a per capita basis, there is about a tenfold difference between the most urban category shown (25,000-50,000) and the rural counties. On the basis of per worker in manufacturing,

Table 7. Coefficients of rank correlation (rho) relating percentage of population rural, 1960, and various measures of capital availabity

Item and Year	Nine Census Geographic Regions	48 States
Percentage of resources, 1949 (U. S. = 100)		
Commercial Bank Deposits - Demand	) -.583	-.459**
Other	)	-.497**
Postal Savings System Deposits	-.266	-.250
Credit Union Assets	-.700*	-.613**
Personal Trust Department Assets	-.567	-.596**
Savings and Loan Association Assets	-.517	-.535**
Life Insurance Reserves	-.404	-.514**
State and Local Unemployment Compensation and Retirement Fund Assets	-.600	-.499**
Management Investment Companies	-.817**	-.597**
Total	-.629*	NA
Commercial and Savings Bank Deposits		
Per 100,000 inhabitants, 1900	-.796**	-.509**
1929	-.867**	-.570**
1949	-.917**	-.531**
Per $100 million income, 1929	-.377**	-.750**
1949	-.275	-.783**
Small Business Administration Loans		
Cumulative value of loans approved to March 31, 1963	-.267	-.435**

* Statistically significant at the 95 percent level.

** Statistically significant at the 99 percent level.

Sources: U. S. Census of Population: 1960. Table 19.

Raymond W. Goldsmith, Financial Intermediaries in the American Economy Since 1900 (Princeton, Princeton University Press, 1958), Tables 19 and 20.

Small Business Administration Quarterly Report (mimeo).

the difference is almost fourfold, indicating a lower rate of investment per worker in manufacturing industries in rural areas as compared with these elsewhere.

Table 8. New capital expenditures by manufacturers, 1958, and Social Security benefits, 1962, by size of major community, counties, 1959

Size of major community	New capital expenditures, 1958			Social Security benefits, 1962	
	Aggregate	Per capita	Per employee in manufacturing	Total	Per capita
	1,000 Dollars	Dollars	Dollars	1,000 Dollars	Dollars
0 - 2,499 -------	111	13	334	53	54
2,500 - 4,999 ---	263	15	374	106	56
5,000 - 9,999 ---	747	24	406	169	57
10,000 - 24,999 -	1,470	30	526	277	60
25,000 - 50,000 -	3,211	123	1,281	502	64

Source: U. S. Census of Population: 1960. Tables 6 and 7.

U. S. Bureau of the Census, County and City Data Book, 1962, table 2, items 89 and 95.

U. S. Social Security Administration Annual Report, December 31, 1962.

CAPITAL FACTOR -- LOCATION AND OWNERSHIP

Detailed calculations made by Professor Kuznets 11/ provide a basis for relating wealth and rurality. Kuznets has developed estimates of total wealth and nonagricultural wealth by both location and ownership. Our analysis (table 9) of his state and regional data shows an inverse relationship between both total wealth and total nonagricultural wealth and rurality of population in the states and regions. Geographical location of capital assets, except for agriculture is concentrated in more urban areas. The location of agricultural wealth is not related significantly with the degree of rurality, but is essentially evenly distributed. The geographical distribution of wealth ownership is even more adverse to the interests of rural and small town areas.

Availability of risk capital and the personal ownership of assets also are adversely located with respect to rural and small town areas. Lampman's 12/ analysis of the top wealth holders in the United States confirms this inference. Total values of estates by regions are inversely and significantly associated with rurality (table 9). This relationship is further demonstrated if the

Table 9. Coefficients of rank correlation (rho) relating percentage of population rural, 1960, and various measures of wealth distribution

Item and Year	Nine Census Geographic Regions	48 States
(1919 - 1921 average)		
Total wealth by location	-.556	-.368**
Total wealth by ownership	-.600	-.474**
Total agricultural wealth by location	.150	.031
Total nonagricultural wealth by location	-.500	-.466**
Total nonagricultural wealth by ownership	-.733**	-.608**
(1949, 1950, 1953 and 1954 combined)		
Aggregate gross value of taxable estate	-.667*	-.627**
Total estate tax returns per capita (1953)	-.567	-.361**
Aggregate gross value of taxable estates per dollar of income payments (1953)	-.588	-.395**

Sources: Simon Kuznets and Dorothy Swaine Thomas, Population Redistribution and Economic Growth, Volume I, (Philadelphia: The American Philosophical Society, 1957) Table 46.

Robert J. Lampman, The Share of Top Wealth Holders in National Wealth, 1922-56, (Princeton: Princeton University Press, 1962) Table 57.

U. S. Census of Population: 1960, Table 19.

* Statistically significant at the 95 percent level.
** Statistically significant at the 99 percent level.

analysis is based on state, rather than national data. With state data, inverse relationships appear between rurality and per capita value of estate tax returns, even when standardized for the aggregate value of income (table 9).

Transfer payments in the public sector also increase both in the aggregate and on a per capita basis with increasing urbanity. These relationships are shown by amounts of social security payments shown in the last two columns in table 8. For example, the average payment to persons benefited in counties with a city in the 25,000 to 50,000 class is $64 per month as against $54 per month for completely rural counties -- a difference of about 20 percent. Payments from both property income and transfer payments are directed in such a way as to disadvantage the rural and small town sector of the economy. This adverse flow, together with some of the imperfections in services provided by financial intermediaries, points to a very serious capital availability problem for rural areas. Even though agricultural capital availability may be generally adequate, nonagricultural capital availability in rural and small town areas

general is inadequate. Such beneficial governmental policies as preferential reserve requirements for country banks, the Small Business Administration, and the Area Redevelopment Administration, although helpful, have not been able to rectify this unfortunate tendency. Their programs and benefits may not be sufficient to solve the problem.

POTENTIALS FOR RURAL ECONOMIC GROWTH

We have looked at the basic institutional structure affecting both the labor and capital markets of rural and small town areas. These institutional inflexibilities will not be solved easily or quickly. Rural development problems are complicated further by the existing distribution of wealth which favors states and areas with more adequate supplies of investment capital, whether held by persons or institutions.

Many economists recognize the need for expansionary economic policies to augment the demand for goods and services which will stimulate the demand for labor. These policies favor activities of the banking system, "pump priming" or deficit financing based on a combination of taxation and expenditure policies by the Federal government. However, the history of active expansionary monetary and fiscal policies is now a generation old and there are at least the equivalent of more than one million unemployed persons in United States agriculture alone, not to mention the number of underemployed and unemployed in the nonagricultural rural sector. Attention might well be focused on the maximum rate of wage rate increase which may accompany a given expansionary dosage in our economy and still generate an increase in aggregate employment. Such wage rate increases are almost axiomatically inflexible downwards and, once instituted, tend to require still another expansionary dose. The cumulative nature of such dosages taken with the cumulative rise in wage rates postpones the prospect of providing adequate employment opportunities for rural youth. In effect, these youth face a continually receding horizon with respect to job opportunities.

It is for this reason that the prospects for economic growth are so important in providing a solution to the problem of redundant labor in rural areas. Edward Denison 13/ suggests that the process of increasing the growth rate in the United States is much more difficult than appeared possible only a few years ago. Fuller utilizing of redundant labor in rural areas and education and training of undereducated persons in rural and small town areas represent potential contributions to national economic growth. In addition, agricultural reorganization which will release still more of the underemployed and unemployed in the rural labor will allow these workers to make a greater contribution to economic production and growth in other sectors.

Fortunately for rural areas, manufacturing and other nonagricultural industries, other than mining, are usually not as restricted in place of location as is agriculture. Therefore capital directed into rural areas will increase rural employment opportunities. Rural industrialization programs, however, must include investment in education and training. It is important for those concerned with the opportunities for rural youth to be aware of the need for training in anticipation of job openings, rather than training after

an opening appears. Without prior training, rural youth will be even more greatly disadvantaged in securing and keeping employment. Furthermore, if jobs are not filled immediately, there is a short-run upward pressure upon wage rates which, in effect, may become frozen. Most important for rural people is the increased likelihood that jobs will be filled by urban rather than rural persons, if the rural person is not already trained.

A commendatory example of training for rural youth is under way in North Carolina. Under the Federal Manpower Development and Training Act, the Governor's office is establishing three regional rural youth training and remedial education centers, with counseling and testing services. This project, which will handle approximately 600 young people, constitutes an important forward step in utilizing this Act for rural persons. Conspicuously, the benefits of this Act have been under used in rural areas.

Although this paper emphasizes the human aspect of the rural resource picture, we recognize that even if only one-third of the United States population lives in rural areas, over 95 percent of the geographic area of the nation is rural. The economic potential of rural areas must capitalize upon resources in such areas. However, we have emphasized that the important employment sectors in manufacturing as well as some services are increasingly flexible with respect to location. Their proximity to consumers becomes more important in many situations than the location of the raw materials used in production. Nonetheless, rural areas are particularly well adapted for manufacturing industries related to the processing of food, fibers, and forest products. In addition, among service industries, recreational opportunities will be increasingly important as incomes and leisure continue to increase. The continuing reduction of time-cost factors in transportation stemming from the construction of interstate highway systems and of the development of river systems for bulk transport, also favor further rural economic development.

Persons who are concerned with the economic development of rural areas and the future of youth in rural areas must avoid any sentimentality or traditionalism in viewing the reduced importance in employment in agriculture. Persons held in situations of poor productivity ultimately will remain at low incomes. The reduction of the labor force in agriculture has been underway for at least a century. The fact that there are already more rural persons engaged in manufacturing than in agriculture is auspicious for the future of rural and small town areas and youth. It will be a continuing challenge to see that these youth are not handicapped by a nostalgic and even mythical conception of rural areas.

FOOTNOTES

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4/ Rural work force with incomes under $1,200 are defined by number of paid and unpaid family workers in families with less than $1,200 net annual cash incomes plus number of unrelated individuals with net annual cash incomes of less than $1,200 minus individuals 65 years of age and over and minus persons reported as unemployed in the conventional sence.

5/ Glasgow, Robert B. "Considerations for Planning Economic Development of Rural Areas," paper presented at Annual Meeting of American Farm Economic Association, August, 1963.

6/ Jacobson, Per. The Role of Money in a Dynamic Economy, Arthur K. Salomon Lecture, New York University, February 19, 1963.

7/ Economic Research Service, USDA. The Balance Sheet of Agriculture, 1963, Washington, D. C.; Agricultural Information Bulletin, 1963, Table 1, forthcoming.

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